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LONDON FOR TSOU
DEPARTMENT OF ENERGY FOR SECRETARY BODMAN
DEPARTMENT OF ENERGY FOR IE
EB/ESC/IEC FOR GALLOGLY, DOWDY; NEA/ARP FOR BERNIS

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TAGS: [ENRG](#) [EPET](#) [OVIP](#) [PREL](#) [KU](#)
SUBJECT: SCENESETTER FOR ENERGY SECRETARY BODMAN VISIT TO
KUWAIT

REF: A. KUWAIT 2602 -- (S) FREEDOM AGENDA: PRO-REFORM
CANDIDATES WIN LANDSLIDE VICTORY
[1](#)B. KUWAIT 1417 -- (U) KUWAIT ENERGY UPDATE
[1](#)C. KUWAIT 0676 -- (U) PROMISING OIL AND GAS
DISCOVERIES
[1](#)D. KUWAIT 0206 -- (U) KOC DISPUTES REPORT ON
DIMINISHED OIL RESERVES
[1](#)E. KUWAIT 848 -- (C) KPC CEO ON ENERGY SECTOR
[1](#)F. KUWAIT 2527 -- (C) ELECTION COUNTDOWN: RUMORS OF
CABINET SHUFFLE

Classified By: CDA Matt Tueller for reason 1.4 (d)

[1](#)1. This is an action request. See paragraph 20.

[1](#)2. (SBU) Welcome to Kuwait Secretary Bodman. There has been considerable change in the government since your November 2005 visit. In January, following the death of long-time Amir Shaykh Jaber, former Prime Minister Shaykh Sabah became Amir and identified political and economic reform as priorities. Your visit comes nearly three weeks after historic parliamentary elections in which women voted for the first time and pro-reform candidates won a clear majority. Ironically, the election of a reformist majority may further delay the passage of Project Kuwait, the USD 8.5 billion proposal to invite international oil companies to develop fields in the north of the country. A new Cabinet was named on July 10 led by PM Shaykh Nasser Al-Mohammed Al-Sabah. The new Energy Minister, Shaykh Ali Al-Jarrah Al-Sabah, replaces Shaykh Ahmad Al-Fahd Al-Sabah, whom you met in your previous visit.

Reformists Victorious in Elections

[1](#)3. (S/NF) Your visit comes at a watershed moment in Kuwait's democratic development. Pro-reform candidates won a resounding victory in the June 29 parliamentary elections as voters sent a clear message to the Government on the need for political reform to combat corruption. Pro-reform MPs now have a majority (34) in the 65-member Parliament. Overall Islamist representation increased from 15 to 18 seats with the bulk of these gains going to the Islamic Constitutional Movement (ICM), the political arm of the Kuwaiti Muslim Brotherhood. Although female turnout was low and none of the 27 female candidates were elected, women's participation in these elections for the first time in Kuwait's history had a tremendous impact, and directly contributed to the reformers' victory. The outcome of the election demonstrates the wellspring of popular support for reform and presents a

direct challenge to the Government and to the ruling Al-Sabah family in particular. The challenge for reformers will be holding together the fragile liberal-Islamist coalition at the heart of the pro-reform alliance. If it holds together, this pro-reform alliance could be a force for political change. Ultimately, these elections are unlikely to significantly impact the close U.S.-Kuwaiti bilateral relationship. Kuwaiti Islamists are not monolithic and largely support Kuwait's strategic relationship with the United States.

¶4. (S/NF) The election of more reformers will put more pressure on the GOK to implement political reforms, though it may further delay passage of Project Kuwait. During the electoral campaign, reformists accused the Government of obfuscating important details of the project. Additionally, the project's champion within the Government, former Energy Minister Shaykh Ahmad Al-Fahd Al-Ahmad Al-Sabah, faced numerous allegations of corruption during the lead-up to the election. Unfortunately, the innuendo surrounding Shaykh Ahmad may have also tainted Project Kuwait. The degree to which new Energy Minister Al-Jarrah will advocate for the project remains to be seen. At present, the pressure to push Project Kuwait through the Parliament is dampened by windfall government revenues resulting from sustained high oil prices.

Energy Projects & Business Opportunities

¶5. (U) While the technical and managerial expertise of U.S. companies has always been welcome in Kuwait, the current crop of business opportunities and direct investment potential has not been this promising since the nationalization of Kuwait's petroleum sector in the 1970s. Kuwait currently produces

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about 2.5 million barrels per day (mbpd) of crude oil and hopes to raise output to 4 mbpd by 2020. To do this, Kuwait must bring in outside technical assistance and foreign investment. This visit provides an excellent opportunity to make the case that U.S. companies can offer the best of both. Additional prospects include major opportunities such as the construction of a new power plant and a new refinery and the additional foreign direct investment in Kuwait's growing and lucrative petrochemical sector. One example of such investment is the EQUATE project, a joint petrochemical venture between Dow Chemical and Kuwait's Petrochemical Industries Company (PIC) that you toured during your previous visit in November 2005.

Project Kuwait - Development of the Northern Oilfields

¶6. (SBU) The GOK wants to bring in outside investment from international oil companies (IOCs) in order to develop its northern oilfields and increase production in four specific fields from 450,000 bpd to 900,000 bpd. Pending parliamentary approval, the Kuwait Petroleum Corporation (KPC) will award the development project to one of three oil company consortia. Chevron and ExxonMobil lead two of the consortia, while Occidental Petroleum is a member of the third. The GOK had hoped to pass the enabling law through the Parliament by the end of 2006, but progress on the initiative has already been delayed this year - first by the Amiri succession, then by the dissolution of the Parliament. Resistance from an opposition-dominated Parliament may lead to further delays. This USD 8.5 billion undertaking, known as "Project Kuwait," has been in the works for over ten years and oil companies are growing increasingly impatient. The IOCs are also concerned about conditions set out in the final tender documents and whether the final package offered will have high enough rate of internal return to merit their participation. The arrangement will be akin to a very large technical service agreement; companies will not be able to book reserves from the fields they will exploit.

New Refinery

¶7. (U) Kuwait's planned fourth refinery, to be located in the Al-Zour area in the south of the country, will reportedly be the world's largest and will refine 615,000 barrels of crude oil each day, according to Kuwait National Petroleum Company (KNPC) officials. This refinery project is part of a larger goal of expanding Kuwait's refining capacity from the current 930,000 bpd to 1.33 million bpd by 2010. The refinery will take approximately 66 months to complete, and is expected to begin production in 2010. The Al-Zour refinery will replace the existing Shuaiba Refinery, which currently refines about 200,000 bpd but is scheduled to be decommissioned. The new refinery will produce naphtha, kerosene and diesel.

¶8. (U) Fluor Corporation (an American company) is the Project Management Services Contractor for the new refinery. KNPC expects to list the qualified engineering, procurement, and construction (EPC) contractors soon. Up from earlier estimates of around \$3 billion, the estimated cost for construction of the new refinery is now being reported as \$6.3 billion. The Kuwaiti private sector will be invited to participate through a 20% capital investment and through some construction work being awarded to local contractors. Fluor is also well-positioned to provide project management services on upgrades for the three existing refineries.

New Electrical Plant

¶9. (SBU) Al-Zour North (AZN) is a proposed USD 2.4 billion, 2500-megawatt electricity plant, currently in the bidding phase. In 1996, Amir Shaykh Jaber pledged the AZN contract would go to an American firm following the cancellation of a previous project that had been won by an American company. Recently, the GOK has backed away from the late Amir's promise, saying the contract will go to the best-qualified firm. However, U.S. firms are leading most of the consortia bidding, regardless of national origin. These U.S. companies include Fluor Corporation, Black and Veatch, Shaw Group, Washington Group, Bechtel, and General Electric. Parsons Brinckerhoff is acting as technical advisor to the Ministry of Energy and they will serve as the "client's engineer,"

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supervising the work of the EPC contract winner.

EQUATE and Other Petrochemical Opportunities

¶10. (U) Established in 1963, Kuwait's Petrochemical Industries Company (PIC) built the first chemical fertilizer complex in the region. Besides the company's own petrochemical facilities, it is involved in numerous joint ventures with international partners. The EQUATE joint venture, which you visited in November 2005, brings together PIC and Dow Chemical, with a 10% share held by a publicly traded Kuwaiti company. The joint venture was established in 1995, with the first olefins plant commissioned in 1997. The plant produces ethylene, ethylene glycol and polyethylene. EQUATE has been very profitable for the partners in this joint venture and, this success has led to plans to establish new ventures for a second olefins plant and an aromatics facility. EQUATE made a USD 588 million profit last year and is on track to repeat the performance this year. Through its work with Dow in EQUATE and through other projects, PIC has now become Dow Chemical's largest co-investor worldwide. In Kuwait alone, their joint investments total \$3-4 billion.

Proven Reserves in Question

¶11. (S/NF) Kuwait publicly claims to possess 105 billion barrels of crude reserves, or about 8 percent of the world's total. However, Petroleum Intelligence Weekly's 30 January

2006 issue reported that an internal document, prepared in December 2001 by and for the Kuwait Oil Company (KOC), presented a major downward revision of oil reserves by greater than 50%, from approximately 100 billion barrels of proven reserves to 24 billion barrels of proven and 24 billion barrels of non-proven reserves. The GOK and KOC publicly denied these lower reserve estimates. Due to the impact on the world economy if reserves are much lower, Washington analysts will begin to perform an independent assessment in mid-September 2006 using technical data gathered from open source and sensitive reporting. Post is assisting this effort by using regional contacts to fill in gaps in technical information.

Protecting Critical Energy Infrastructure

¶12. (S/NF) Kuwait's oil industry remains vulnerable to disruption by terrorist attack, accident, or natural disaster, with the off-shore facilities being the most vulnerable. A disruption to the refineries could stop anywhere from 100,000 to one million barrels of crude from being refined each day. An attack on the export facilities at Mina Al-Ahmadi would take approximately 2 million bpd of crude and refined product off the world market. The proximity of oil infrastructure facilities to U.S. military facilities in Kuwait remains a concern. The GOK coordinates protection of its oil infrastructure through a Vital Installations Security Group comprised of representatives from various ministries and the oil sector. Additionally, in 2005, a new KPC subsidiary, the Oil Sector Services Company, was formed to take the lead in security matters for KPC. Post continues to engage GOK on improving the security of critical energy infrastructure and is involved in discussions to offer the services of a USG security assessment team.

Kuwait's Gas Needs

¶13. (C) Kuwait is oil-rich and gas-poor, and needs to secure additional supplies of gas for its power plants and petrochemical facilities. Its options are limited and fraught with difficulties. The GOK is in talks with Iraq to secure a limited amount of gas, but it won't be enough to meet Kuwait's needs. A long-stalled plan to import gas from Qatar via an undersea pipeline through Saudi Arabia's waters is being blocked by the KSA, due to long-standing irritations in the Saudi/Qatari relationship. Kuwait has limited options to drill for its own gas, with exploration of the most promising option, the offshore Al-Durra field, held up over a boundary dispute with Iran. Kuwait has also been in negotiations with Iran to import gas via pipeline. We have encouraged Kuwait to explore other options and have informed them of the potential for ILSA repercussions. In February

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2006, the Ministry of Energy announced a large gas discovery in northern Kuwait. Sources in IOCs report that the quantity and quality of the gas are significant, but a comprehensive survey of the find will not be completed until 2007.

Kuwaiti Investments in the U.S.

¶14. (SBU) The GOK has expressed an interest in partnering with a U.S. company to invest in additional refinery capacity in the United States. This topic has seen a renewed interest by the GOK in light of new energy legislation in the U.S. and the pressing need for additional refining capacity highlighted by recent hurricane damage. While the Kuwaitis do not appear to have made formal overtures to any specific U.S. company, we should continue to encourage them to explore potential investments in U.S. refinery expansion and brief them on plans to streamline the regulatory system. The State of Louisiana, through its State Secretary for Economic Development, has been in contact with KPC's Washington

office, and directly with the GOK, to showcase the economic and regulatory advantages of investing in new refining capacity in that state. The Governor of Louisiana has indicated her intention to visit Kuwait in the near future to discuss the possibility of Kuwaiti investment in a new refinery.

Expanding the Energy Dialogue

¶15. (C) The excellent dialogue that we have had with Kuwait on global and bilateral energy issues continues. Ministry of Energy Undersecretary Issa Al-Own and others in the Kuwait energy sector frequently attend U.S. conferences and seminars, and we encourage these visits as often as possible. The GOK has also expressed interest in having U.S. private sector participation in a planned "GCC Strategic Studies Center" to be located in Kuwait and to focus on the intersection of energy and economic research. Undersecretary Al-Own has met with the U.S. Center for Strategic and International Studies to discuss the idea.

Assistance for Iraq

¶16. (C) Kuwaiti support for USG goals in Iraq remains strong. Since early 2002, the GOK has provided billions of dollars in free and discounted jet fuel for use by Coalition Forces in Operation Iraqi Freedom, and continues to do so. Additionally, Kuwait hosted a visit by Iraqi Prime Minister Maliki from 4 to 5 July and continues to support humanitarian projects in Iraq in the fields of education and health through the Kuwait Fund. The Ministry of Foreign Affairs reacted positively to the USG's recent request that the GOK assume a role on the Steering Committee of the UN's proposed Iraq Compact.

¶17. (S/NF) From December 2002 to December 2004, Kuwait provided nearly USD 2 billion in free fuel for U.S. and Coalition Force use in Operation Iraqi Freedom (OIF) and as Assistance in Kind (AIK) for Kuwait-specific activities under the Defense Cooperation Agreement (DCA). Kuwait continues to provide jet fuel at a discounted rate, saving the military and U.S. taxpayers millions of dollars a year. It also provides in-kind support, estimated at \$1-2 billion annually, for the U.S. military presence in Kuwait. Kuwait's support facilitates the U.S. military's mission in Iraq and Afghanistan, both of which are supported by U.S. forces in Kuwait. Kuwait currently hosts approximately 22,000 U.S. military and civilian contractors at bases around the country.

¶18. (U) Kuwait is also a generous financial supporter of countries and organizations where we have a strategic U.S. interest. It has provided financial assistance in the form of grants and concessionary loans to Iraq, Afghanistan, and the Palestinian Authority.

Assistance for Hurricane Katrina

¶19. (U) The GOK pledged USD 500 million for humanitarian assistance after Hurricane Katrina. To date, the Prime Minister has presented \$25 million to the Bush-Clinton Katrina Fund and another \$25 million was donated to the

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American Red Cross. A further \$50 million has been approved to be donated in the form of petroleum derivatives. The GOK has proposed providing the remaining \$400 million as \$50 million for humanitarian relief and \$350 million in petroleum products pending approval by the Parliament.

Action Request:

¶20. (U) To assist with planning, Post would appreciate a

complete delegation list, arrival/departure information, and fiscal data for motor pool and other support services. As Kuwait has been a consistently reliable bilateral partner, the visit offers an opportunity to express gratitude to the Kuwaiti Government for their ongoing support in the War on Terrorism and the building of democracy in Iraq. We also recommend congratulating the Kuwaitis on their recent success in conducting democratic parliamentary elections which incorporated women as both voters and candidates for the first time. We would also like to recognize the GOK's generosity, whether it has been in support of security efforts in the region or through humanitarian assistance to the states affected by Hurricane Katrina.

For more Embassy Kuwait reporting, see:
<http://www.state.sgov.gov/p/nea/kuwait/index.cfm>

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